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INFO RUEHGB/AMEMBASSY BAGHDAD PRIORITY 0066

RUEHBJ/AMEMBASSY BEIJING PRIORITY 1506

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C O N F I D E N T I A L SECTION 01 OF 02 SEOUL 003916

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TREASURY PASS TO CATHERINE DOWNARD, VICKIE ALVO

E.O. 12958: DECL: 11/19/2016

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SUBJECT: TREASURY DEPUTY SECRETARY KIMMITT MEETS ROKG ON INTERNATIONAL COMPACT WITH IRAQ

REF: STATE 181094

Classified By: Amb. Alexander Vershbow. Reasons: 1.4 (b/d)

¶1. (C) Summary. On November 8, Treasury Deputy Secretary Robert Kimmitt met National Security Advisor and Foreign Minister-Designate Song Min-soon, Deputy Prime Minister (DPM-Finance and Economy) Kwon O-kyu, and Ministry of Foreign Affairs and Trade (MOFAT) Special Representative for Korean Peninsula Peace and Security Affairs Chun Yung-woo to discuss steps forward for the International Compact with Iraq (ICI). While Kwon and Chun outlined political and financial constraints limiting the ROKG's ability to boost its current aid level, FonMin-designate Song indicated he would consider extending more help once in office and after the National Assembly extends the current Korean military deployment in Irbil through 2007. (Follow-on discussions on the Banco Delta Asia case and Iran reported septel.) End Summary.

International Compact with Iraq (ICI)

¶2. (C) In separate meetings with Special Representative Chun, DPM Kwon, and FonMin-designate Song, D/S Kimmitt thanked them for the ROKG's generous support of Iraq, both in development assistance and debt relief, and in troops on the ground. He noted that Korea has proven itself as a major ally of both the U.S. and Iraq by deploying the third largest military force in Iraq.

¶3. (C) Turning to future steps, D/S Kimmitt emphasized that the ICI had laid out a reform plan, a "glide path" to Iraq's economic self-sufficiency and financial independence over the next five years. Among other reform commitments, he highlighted the GOI's planned hydrocarbons law that would provide for (1) a fair, transparent, and effective foreign investment regime in oil resources; and (2) domestic oil revenue distribution on the basis of population, thereby helping to calm sectarian and ethnic strife stemming from a sense of deprivation.

¶4. (C) To attain the ICI's goal of self-sufficiency, however, donors needed to step forward to assist Iraq in meeting its financing gap over the same period of time. That would thereby help Iraq to improve basic social services and accelerate badly needed infrastructural development, including an expanded and more efficient oil production capacity that could double current output.

¶5. (C) D/S Kimmitt explained U.S. hopes for additional pledges at the late-November or early-December Ministerial meeting to sign the Compact, and expressed the hope that

Korea would be able to make (1) a new pledge of development assistance, and (2) move from 80- to 100-percent debt forgiveness. (Note: To date, Korea has written off 80 percent of its sovereign debt of USD 200 million, but USD 42 million remains outstanding. The much larger commercial debt of USD 2.6 billion was dealt with in a separate debt swap agreement. End note.)

Special Representative Chun

¶ 6. (C) In his response, Special Representative Chun said that the ROKG was proud to be part of the international effort to help Iraq stand on its own feet. The ROKG's Madrid commitment of \$260 million in grant assistance was unprecedented in the ROK's foreign assistance history, comprising more than its total aid to Africa. In addition, the ROKG believed its participation in the Madrid and ICI exercises constituted a long-term investment in the future of the Korean peninsula. After all, Chun observed, North Korea would collapse at some point in the future, necessitating Korea's appeal to international donors for a development program similar to ongoing efforts on behalf of Iraq.

¶ 7. (C) Notwithstanding these points, Chun was quick to add that it would be difficult for Korea to find additional resources for Iraq at this time. First, the ROKG has already submitted a FY-07 budget proposal for USD 40 million in Iraqi aid as part of its Madrid pledge - and faces a bill for \$110 million in UN membership arrears that would need to be paid in the near future as newly elected UN Secretary General Ban Ki-moon assumed office. Secondly, the ROKG was currently "overcommitted" on its Official Development Assistance (ODA) budget, which represented 0.1 percent of GDP and was slated to be tripled if the National Assembly accepted MOFAT

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justifications for new programs, particularly in Africa. Finally, Chun stressed, while troop contributions were not counted as part of assistance to Iraq, the National Assembly might view the ROKG's current overall financial commitment to Iraq as constituting a "disproportionate" share of its ODA.

¶ 8. (C) Chun added that additional sovereign debt relief was problematic for the same reasons, and indicated little could be done at this time.

Deputy Prime Minister Kwon

¶ 9. (C) In response to the Deputy Secretary Kimmitt's ICI presentation, DPM Kwon stressed that Korea remained committed to fulfilling its promises to Iraq. Nonetheless, the ROKG's FY-07 budget (beginning January 1) had already been submitted to the National Assembly and would be hard to pass in light of the fractious political opposition, as well as the approaching National Assembly (and Presidential) elections in December 2007. Several opposition parties had strongly signaled their intention to try to trim the Roh administration's budget proposal and cut taxes, thereby squeezing the ODA budget on both its revenue and expenditure sides.

¶ 10. (C) Since Korea planned to triple its ODA to African countries by 2009, budget resources remained extremely tight. Kwon indicated, however, that the ROKG would take another look at Iraqi assistance in FY-2008, possibly including new ODA and additional soft-lending. Responding to D/S Kimmitt's observations on Iraq's long-term commercial potential, particularly in its energy and construction sectors, Kwon promised to revisit the aid issue in the future, possibly looking at the Korea Export Insurance Guarantee Agency's outstanding Iraqi obligations. Turning briefly to commercial debt, Kwon noted one of Korea's biggest companies, Hyundai Construction almost collapsed partly due to its USD 1.4 billion in Iraqi-related accounts receivable. This experience complicated ROKG efforts to encourage the private sector to do more in Iraq at present.

National Security Advisor Song Min-soon

¶11. (C) D/S Kimmitt made a final ICI presentation to National Security Advisor Song Min-soon, who is widely expected to be confirmed as Foreign Minister by the National Assembly before the end of November. D/S Kimmitt stressed the importance of help to the newly elected and first democratic government of Iraq at this critical time, adding that Iraq's long-term strategic, commercial, and political significance called for a sustained donor effort in the coming months.

¶12. (C) Song promised that he would look into extending additional assistance to Iraq once he took office. He noted, however, that the National Assembly needed first to take up the ROKG's authorization request to extend its military troop deployment in Irbil through 2007. This request was a political "hot potato." Predicting that the Roh administration would ultimately succeed in obtaining the authorization, Song nonetheless indicated that maintaining the Zaytun division's current 2,400-strong troop level throughout 2007 remained "uncertain."

¶13. (C) In closing, D/S Kimmitt highlighted Iraq's proposed hydrocarbons law that opened the door to foreign direct investment in Iraq's energy sector. The Deputy Secretary observed that Korean companies seemed to be holding back on growing commercial opportunities in Iraq. To help jump start business, he recommended increased contact between the Korean Ambassador to Iraq and the Iraqi oil minister on emerging energy and infrastructural opportunities. Song took note of this suggestion.

¶14. (U) Deputy Secretary Kimmitt cleared this cable.
VERSHBOW